

Memorandum

Date: Friday, August 4th, 2006

To: State of Iowa, Department of Natural Resources

From: Economics Research Associates (ERA)

Re: Honey Creek Resort State Park Market and Financial Analysis Update

The Conservation and Recreation Division of the Iowa Department of Natural Resources (INDR) is continuing to pursue plans to develop a "state park resort" that will provide destination-style recreational facilities and activities for day-use, vacations, meetings and conferences. The following memorandum relates to Honey Creek Resort State Park in regards to the most recent contract between INDR and ERA to update the initial data and findings, specifically: 1) trade area demographics; 2) participation characteristics; 3) visitor market; 4) competition; and, 5) market penetration, market share, and market performance.

Market Analysis

Updated demographics revealed the following implications for the Honey Creek Resort trade area, covering a radius of 270 miles around the proposed resort.

- The trade area has continued to increase by roughly 1 million people every 5 years. By 2010, the trade area is projected to add another 1 million persons or 424,000 households, for a projected population of 20.8 million persons distributed into just over 8 million households with an average size of 2.4 persons per household.
- From 2005 to 2010, median and average household incomes and per capita income are projected to grow between 3 percent (resident market 0-50 miles, median household income) and 4 percent (secondary market 130-270 miles, per capita income) percent per year. While consumers in each market are projected to gain purchasing power (as indicated by increasing median, average, and per capita incomes), it is important to temper this conclusion with the understanding that inflation is roughly 3 to 4 percent.

Table 1. Honey Creek Resort Trade Area, 2000-2010

	2000	2005	2010	Change 05-10
Population	18,883,700	19,817,900	20,832,080	+1,014,180
Households	7,248,610	7,671,690	8,095,770	+424,080
Household Families	4,917,640	5,126,760	5,321,820	+195,060

Source: Business Analyst®

- The resort trade area will continue to experience an aging population, with the 55-to-65 age group increasing by the highest average annual growth rate, 4.3 percent (compared to between -0.8 and 1.1 percent among the other segments), adding 460,000 by 2010.

Table 2. Trade Area Population By Age Group, 2000-2010

Age Group	2000	2005	2010	Change 05-10
0 – 4	1,273,380	1,359,140	1,426,060	66,925
5 – 14	2,753,440	2,728,050	2,749,050	21,000
15 – 24	2,741,880	2,932,030	3,036,795	104,760
25 – 34	2,511,315	2,493,370	2,598,100	104,730
35 – 44	3,032,170	2,927,760	2,812,490	-115,270
45 – 54	2,527,620	2,886,200	3,130,240	244,040
55 – 64	1,614,550	1,948,700	2,408,120	459,420
65+	2,431,840	2,525,450	2,668,770	143,320

Source: Business Analyst®

- As the population ages, the number of high-income households are also increasing. By 2010, households with an annual income over \$75,000 are projected to account for 39 percent of all households.

Table 3. Trade Area Income by Income Group, 2000-2010

Income Group	2000	2005	2010	Change 05-10
\$0 – 14,999	1,003,150	851,330	740,550	-124,090
\$15,000 – 34,999	1,898,930	1,668,640	1,442,760	-214,500
\$35,000 – 49,999	1,272,850	1,246,580	1,143,950	-79,500
\$50,000 – 74,999	1,541,510	1,622,190	1,640,600	84,700
\$75,000 – 99,999	761,830	971,190	1,107,460	168,950
\$100,000 – 149,000	510,690	874,675	1,233,845	367,230
\$150,000+	261,410	437,080	788,110	251,360

Source: Business Analyst®

Iowa Visitor Market

- According to updated information from the Iowa Tourism Bureau and based on data from Travelscope, Iowa received approximately 29.6 million visitors (person-trips)¹ in 2005, a 3 percent decrease from the previous year of 29.9 million visitors². The following tables show overnight visitor volume to Iowa since 1994 and the annual percent change.

Table 1. Overnight Visitor Volume and Percent Change in Iowa, 1995-2005

	1995	2000	2005
Overnight person-trips	12,320,000	13,960,000	13,695,000
Percent change	-	13.3%	-1.9%

Source: TravelScope, Iowa Tourism Bureau

¹ Visitor (person-trip) is defined as anyone taking a trip at least 50 miles one way away from home and/or stays at least one night in a paid accommodation at the destination.

² Travelscope data from years prior to 2002 indicate lower total visitation due to a modified surveying approach; updated Travelscope / DK Shiftlet visitor information for 2004 and 2005 will be available in September 2006.

- ❑ Average travel party size was 2.1 visitors, up from 1.8 in 2003, but still less than the national average of 2.5 visitors.
- ❑ The length of stay (just over 2 nights) and top origin states generally remained the same in 2004, compared to previous years. The majority of visitors (57 percent in 2005) are from Iowa, but percentages of visitors from Nebraska, Missouri, and South Dakota all increased. Illinois remained the number one out-of-state market with 8 percent of total visitors.

The following table shows visitor volumes to Iowa in 2005.

Table 4. Travel to Iowa, 2005		
	Visitors	Percent of Total
Total person-trips	29,609,000	100%
Leisure	22,266,000	75.2%
Business	7,343,000	24.8%
Overnight	13,695,000	46.3%
Hotel/motel	6,957,000	50.8%
In-state	16,788,300	56.7%
<i>Source: Iowa Tourism Bureau</i>		

- ❑ Since 1994, the type of activities and their share of visitors' time while in Iowa have been relatively steady, with the exception of entertainment. In 1994, only 4 percent of visitors indicated engaging in gaming and by 2004, the share more than doubled to 11 percent. Shopping, dining, and general entertainment also experienced increases from 2003 to 2004 of at least 3 percent.

Accommodation Market

- ❑ The updated hotel statistics from Smith Travel Research (STR) indicate the number of hotel rooms in a 9-county area³ around the proposed resort and Rathbun Lake has not changed dramatically since 2002 (updated STR data indicates an increase of fewer than 10 rooms).
- ❑ ERA conversations with the Des Moines CVB indicated average occupancy rate (AOR) for the Des Moines metro market was 60 percent and average daily rate (ADR) was \$72.15 in 2005. Reports from STR indicate Iowa area AORs and ADRs have hovered around 54 percent and \$55, respectively, with 2004 and 2005 experiencing the greatest increases in both measures.

Table 5. Iowa Area Hotel Market Historic Statistics						
	2000	2001	2002	2003	2004	2005
AOR	56%	54%	54%	53%	54%	56%
% change	-	-3.60	-0.10	-2.00	3.00	2.10
ADR	\$54	\$55	\$55	\$56	\$57	\$60
% change	-	1.00	-0.20	2.50	2.30	4.50
<i>Source: Smith Travel Research</i>						

³ Monroe, IA, Appanoose, IA, Wayne, IA, Lucas, IA, Davis, IA, Wapello, IA, Mercer, MO, Putnam, MO and Schuyler, MO

- The state market had minimal increases in percentages of rooms sold (demand) and rooms available (supply) between the years 2001 and 2005. Room revenues increased the most between 2003 and 2005.

Table 6. Iowa Hotel Market Historic Statistics (% Change)

	2000-01	2001-02	2002-03	2003-04	2004-05
Room Revenue	-0.40	0.30	1.50	5.80	7.90
Rooms Available	2.30	0.60	1.10	0.40	1.00
Rooms Sold	-1.40	0.50	-1.00	3.50	3.20

Source: Smith Travel Research

- Previous ERA estimates suggested the proposed resort lodge would have higher AOR and ADRs compared to the other Rathburn Lake area lodging establishments. This still appears reasonable, given that the proposed resort will combine more amenities in one location and will thus be more attractive to Rathburn Lake area guests as well as corporations and associations on the meeting demand markets.

Leisure Demand

- The number of resorts in the market area offering a similar product to Honey Creek has not changed.
- The resident market (0 to 50 miles) population accounts for the majority of day visitation. Until 2010, the population is projected to decrease slightly by 1 percent.
- The population of the primary market (50 to 130 miles) is projected to reach 2.46 million by 2010, the target market, households with a total annual income of more than \$75,000, is projected to have a share of 34 percent of this market in 2010. Of this, the total capture at the resort would be 1 percent, about 3,900 households or 7,900 people. These would be coming for a weekend escape or vacation and would average 2 persons per party and stay on average 1.5 nights, creating 5,925 room nights of demand, an increase from 5,200 from 2008 projections.
- The population of the secondary market (130 to 270 miles) is projected to reach 18.2 million by 2010, the target market, households with a total annual income of more than \$75,000, is projected to have a share of 39 percent of this market in 2010. Considering this market would be expected to come in larger (family) groups of say, 3 persons, and stay for an average of 2.5 nights, this would create demand for about 20,300 room nights, an increase of 2,100 from 2008 projections.
- The primary and secondary markets combined total 26,200 room nights demanded or 120 rooms annually at 60 percent occupancy.

The Earthpark development at Lake Red Rock will include a large share of residential development (proposed high rise condominium building). Due to its proximity to Des Moines, it is slated to cater more to daily visitors. If the indoor rain forest component of the development is implemented with an estimated annual visitation of 1 million, this could also serve as an additional attraction for guests at the Honey Creek Resort.

Conference & Meetings Demand

- ❑ County Business Pattern data reports the total number of establishments in Iowa remained almost unchanged from 2001 to 2004 (+1%). Establishments with 50 employees or more also remained almost unchanged over the same time period (+0.3%).
- ❑ Based on the 2004 Meetings Market Survey, a total of 9,800 corporate meetings are estimated to be held in Iowa each year, 6 percent or an estimated 590 of which will be held at hotel resorts. Assuming Honey Creek would capture 4 percent with an average number of attendees of 35 people, and an average length of 2 nights, this market would generate 1,650 room nights.
- ❑ The average number of attendees grew from 75 to 100 per association meeting. Assuming that the resort would be capable of holding approximately three association meetings per year with an average stay of 3 nights, this market would generate an additional 900 room nights.

Accommodation Demand Summary

- ❑ Based on updated demographic projections for 2010, room demand from the leisure market is projected to increase by roughly 1,060 or 4 percent. ERA used 60 percent as the benchmark to calculate number of rooms. Room demand from the business and meetings market is estimated to remain the same.

Aquatic Center Market

- ❑ The steadily increasing number of waterparks being constructed implicates the growing demand for this amenity. Thus, the aquatic center component of the development could support year-round visitation to the resort.

Table 7. Hotel Waterpark Construction							
	2000	2001	2002	2003	2004	2005	2006
Open At Beginning Of Year	18	32	41	50	65	81	104
Openings During Year	14	9	9	15	16	23	37
Open By End Of Year	32	41	50	65	81	104	141
Percent Change	77.8%	28.1%	22.0%	30.0%	24.6%	28.4%	35.6%
<i>Source: Hotel Waterpark Resort Research and Consulting</i>							

Sports Participation

- ❑ Participation day trends among trade area states between 2002 and 2004 seem to be dependent on the activity and trade area state, suggesting varying environments and availability. Based on updated National Sporting Goods Association (NSGA) information, swimming participation days increased from 2002 to 2004 in all trade area states except Wisconsin and increased by the highest number of participation days in Iowa and Minnesota (18 and 19 days, respectively). Hiking participation days also increased in every trade area state except Illinois.

- ❑ Nationally, participation generally remained steady between 1997 and 2004 for activities that are expected to be available at the proposed resort, with the exception of increasing participation in camping and decreasing participation in bicycle riding, boating, and swimming.
- ❑ Comparing two more recent years, 2002 and 2004, revealed the average participant age generally decreased, with the 25-to-34-years age bracket most likely to participate in any activity. Other notable trends include a growth in the share of female participants fishing frequently from 29 to 36 percent and changes in infrequent participation rates suggesting more men, yet fewer women, are golfing casually.

Golf Market

- ❑ Based on updated golf participation information from the National Golf Foundation (NGF), nationally the number of golfers⁴ increased in 2003 to 27.4 million, an increase of 5 percent from 2002, while number of rounds played decreased 1.5 percent from 2002 to 2003 to 495 million. The number of rounds played in the lower Midwest region has only increased by 1 percent since 2002, thus verifying ERA's initial estimate of between 20,000 and 27,000 annual rounds.
- ❑ Updated golf demand estimates for residential, primary, and secondary markets based on average Iowa participation rates and a 14+ year old market indicate an increase of golfers in all markets from the 2001/2006 data.

Table 8. Golf Participation Estimates Based on State Participation Rate						
	Residential Market		Primary Market		Secondary Market	
Year	2005	2010	2005	2010	2005	2010
Population > age 14	175,285	175,480	1,935,970	1,992,960	13,629,440	14,490,580
Iowa Golf Participation Rate	12%	12%	12%	12%	12%	12%
Estimated Golfers	21,600	21,600	238,100	245,100	1,676,400	1,782,300

Source: National Golf Foundation, Economics Research Associates

The table below shows existing golf courses in the 9-county Rathbun Lake area (Monroe, IA, Appanoose, IA, Wayne, IA, Lucas, IA, Davis, IA, Wapello, IA, Mercer, MO, Putnam, MO and Schuyler, MO) with updated green fees.

⁴ Golfers are defined as adults ages 18 and above, who played at least one regulation round of golf.

Table 9. Rathbun Lake Area Golf Courses							
County	ST	City	Course	Type	Category	#	Fee
Appanoose	IA	Centerville	Appanoose CC	Private Equity	Just Golf	9	\$23
Davis	IA	Bloomfield	Bloomfield CC	Private Equity	Just Golf	9	\$23
Lucas	IA	Chariton	Lakeview Golf & CC	Private Equity	Just Golf	9	\$22
Monroe	IA	Albia	Albia CC	Private Equity	Just Golf	9	\$25
Wapello	IA	Ottumwa	Cedar Creek	Municipal	Just Golf	18	\$33
Wapello	IA	Ottumwa	Ottumwa CC	Private Equity	Just Golf	18	\$45
Wayne	IA	Corydon	Corydon Golf Club	Municipal	Just Golf	9	\$20
Mercer	MO	Princeton	Princeton CC	Municipal	Just Golf	9	\$5
Putnam	MO	Unionville	Lake Thunderhead	Private Non-Equity	Real Estate Dev't.	9	\$6
Putnam	MO	Unionville	Unionville CC	Private Equity	Just Golf	9	\$24
Schuyler	MO	Lancaster	Lancaster CC	Daily Fee	Just Golf	9	\$15
<i>Source: National Golf Foundation</i>							

ERA's review of the NGF golf course database revealed there are not any current plans or proposals for additional golf facilities in the 9-county area. This combined with latest NGF data on rounds played indicates that the overall level of play will remain the same at the Honey Creek Resort golf course as initially estimated.

Cash Flow

The following are the assumptions and inputs that were used to develop the cash flow analysis.

- ☐ Number of lodge rooms: 105
- ☐ Number of cabins: 28
- ☐ Average daily rate in stabilization year (third year of operation): \$120 rooms, \$140 cabins
- ☐ Average Occupancy rate in stabilization year: 58%
- ☐ Average waterpark admission- day visitors including campers: \$13
- ☐ Number of day meetings/events: 55 with 100 guests per event
- ☐ Inflation index 4 percent
- ☐ Interest rate 4.5 percent
- ☐ Equity to debt ration is 0:100 with a two-year grace period on payments
- ☐ Loan is 30 year term
- ☐ Construction cost including the aquatic center and the conference facilities is estimated at \$29.4 million in 2005 dollars. This is based on \$126,075 per lodge room (includes meeting facilities), \$236 per square foot of aquatic center, and \$120,000 per cabin. Cabins are assumed to be various sizes to accommodate 4-12 people.
- ☐ Land is assumed to be available at no cost to the developer. Also, the development is assumed to be exempt of property taxes.
- ☐ Operating revenue and expense ratios are based on industry standards from Smith Travel Research.
- ☐ Waterpark operational expenses are based on an industry report for the World Waterpark Association by Hotel Waterpark Resort Research & Consulting.

Cash Flow Analysis, Honey Creek Lodge & Conference Center

Assuming Dates		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Years 1-2	Years 3-10										
4.00%	4.00%										
Key Performance Indicators											
Lodge Rooms	105	105	105	105	105	105	105	105	105	105	105
Indoor Waterpark (81')	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000
Room Nightly Supply	365	365	365	365	365	365	365	365	365	365	365
Occupancy %	50%-58%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%
Room Nights Sold	19,229	21,079	22,329	22,329	22,329	22,329	22,329	22,329	22,329	22,329	22,329
Average Room Rate (Total)	\$110.00	\$110.00	\$121.80	\$126.79	\$131.96	\$134.38	\$140.38	\$140.38	\$140.38	\$151.81	\$177.91
Non-Lodge Waterpark Visits	15,000	15,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000
Admission	\$10.00	\$10.00	\$13.00	\$13.00	\$14.06	\$14.06	\$14.43	\$15.31	\$15.83	\$16.43	\$17.11
Chairs Per Hour	2	2									
REVENUE											
Room Revenue	\$2,192,190	\$2,411,409	\$2,607,420	\$2,774,117	\$2,885,081	\$3,000,485	\$3,120,504	\$3,245,324	\$3,375,137	\$3,510,143	\$3,650,339
Casino Revenue (Total 28)	\$892,830	\$917,444	\$938,940	\$961,134	\$984,154	\$1,008,000	\$1,032,699	\$1,058,200	\$1,084,600	\$1,111,900	\$1,140,100
Food & Beverage	\$376,376	\$394,361	\$412,346	\$430,331	\$448,316	\$466,301	\$484,286	\$502,271	\$520,256	\$538,241	\$556,226
Conference Center - Daily Events	\$122,341	\$127,481	\$132,621	\$137,761	\$142,901	\$148,041	\$153,181	\$158,321	\$163,461	\$168,601	\$173,741
Other Revenues	\$77,583	\$86,691	\$95,799	\$104,907	\$114,015	\$123,123	\$132,231	\$141,339	\$150,447	\$159,555	\$168,663
Waterpark - Daily Visits	\$150,000	\$150,000	\$150,000	\$150,000	\$150,000	\$150,000	\$150,000	\$150,000	\$150,000	\$150,000	\$150,000
Food & Beverage - Daily Visits	\$34,500	\$35,820	\$37,140	\$38,460	\$39,780	\$41,100	\$42,420	\$43,740	\$45,060	\$46,380	\$47,700
TOTAL REVENUES	\$4,145,479	\$4,499,488	\$4,853,497	\$5,207,506	\$5,561,515	\$5,915,524	\$6,269,533	\$6,623,542	\$6,977,551	\$7,331,560	\$7,685,569
OPERATION EXPENSES											
Pre-operating Expenses											
Departmental Expenses											
Room	\$181,321	\$181,321	\$181,321	\$181,321	\$181,321	\$181,321	\$181,321	\$181,321	\$181,321	\$181,321	\$181,321
Casino (Total 28)	\$348,048	\$360,232	\$372,416	\$384,600	\$396,784	\$408,968	\$421,152	\$433,336	\$445,520	\$457,704	\$469,888
Food & Beverage	\$137,970	\$143,489	\$148,998	\$154,507	\$160,016	\$165,525	\$171,034	\$176,543	\$182,052	\$187,561	\$193,070
Other	\$684,469	\$747,119	\$809,769	\$872,419	\$935,069	\$997,719	\$1,060,369	\$1,123,019	\$1,185,669	\$1,248,319	\$1,310,969
Sub-Total Departmental	\$1,566,808	\$1,497,138	\$1,463,504	\$1,429,870	\$1,396,236	\$1,362,602	\$1,328,968	\$1,295,334	\$1,261,700	\$1,228,066	\$1,194,432
Administrative & General	\$366,046	\$392,208	\$418,370	\$444,532	\$470,694	\$496,856	\$523,018	\$549,180	\$575,342	\$601,504	\$627,666
Marketing	\$77,583	\$86,691	\$95,799	\$104,907	\$114,015	\$123,123	\$132,231	\$141,339	\$150,447	\$159,555	\$168,663
Franchise Fee	\$28,604	\$30,768	\$32,932	\$35,096	\$37,260	\$39,424	\$41,588	\$43,752	\$45,916	\$48,080	\$50,244
Energy/Utilities	\$207,274	\$224,069	\$240,864	\$257,659	\$274,454	\$291,249	\$308,044	\$324,839	\$341,634	\$358,429	\$375,224
Property Operations & Maintenance	\$11,979	\$12,418	\$12,857	\$13,296	\$13,735	\$14,174	\$14,613	\$15,052	\$15,491	\$15,930	\$16,369
Sub-Total Administrative	\$1,089,432	\$1,182,439	\$1,275,446	\$1,368,453	\$1,461,460	\$1,554,467	\$1,647,474	\$1,740,481	\$1,833,488	\$1,926,495	\$2,019,502
Waterpark	\$685,000	\$685,000	\$685,000	\$685,000	\$685,000	\$685,000	\$685,000	\$685,000	\$685,000	\$685,000	\$685,000
Sub-Total Operational Expenses	\$3,110,432	\$3,163,477	\$3,221,504	\$3,279,531	\$3,337,558	\$3,395,585	\$3,453,612	\$3,511,639	\$3,569,666	\$3,627,693	\$3,685,720
OTHER EXPENSES											
Management Fee (% Total Rev)	2%	\$82,910	\$82,910	\$82,910	\$82,910	\$82,910	\$82,910	\$82,910	\$82,910	\$82,910	\$82,910
Insurance (% of Total Rev)	1.5%	\$62,182	\$62,182	\$62,182	\$62,182	\$62,182	\$62,182	\$62,182	\$62,182	\$62,182	\$62,182
Property Tax (% of Total Rev)	0.1%	\$4,145	\$4,145	\$4,145	\$4,145	\$4,145	\$4,145	\$4,145	\$4,145	\$4,145	\$4,145
Land Lease (% of Total Rev)	0%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Replacement Reserve (% Total Rev)	2%	\$82,910	\$82,910	\$82,910	\$82,910	\$82,910	\$82,910	\$82,910	\$82,910	\$82,910	\$82,910
Sub-Total Other Expenses	\$209,902	\$233,207	\$256,512	\$279,817	\$303,122	\$326,427	\$349,732	\$373,037	\$396,342	\$419,647	\$442,952
Lodge (Including Waterpark & Conference Facilities)											
Total Revenue	\$4,145,479	\$4,499,488	\$4,853,497	\$5,207,506	\$5,561,515	\$5,915,524	\$6,269,533	\$6,623,542	\$6,977,551	\$7,331,560	\$7,685,569
Total Expenses	\$3,462,798	\$3,545,925	\$3,629,052	\$3,712,179	\$3,795,306	\$3,878,433	\$3,961,560	\$4,044,687	\$4,127,814	\$4,210,941	\$4,294,068
Net Income	\$682,681	\$953,563	\$1,224,445	\$1,495,327	\$1,766,209	\$2,037,096	\$2,307,983	\$2,578,870	\$2,849,757	\$3,120,644	\$3,391,531
TOTAL REVENUE											
TOTAL EXPENSES											
NET OPERATING INCOME											
Internal Rate of Return											
Net Present Value											
16.1%											
54,223,928											
10%											